

Our review was conducted at six Federal executive agencies in the Washington area between the period July 1979 and February 1980. These agencies are Departments of Commerce, Energy, Transportation, Health, Education & Welfare (Office of Education), Housing & Urban Development, and Labor. The review included contracts classified as consulting services by the agencies as well as other "study-type" contracts not classified as consulting services or reported to OMB. We examined 111 contracts valued at about \$20 million. Although our universe is small, it is our view that the problems found at the six agencies are probably common to most Federal agencies.

Attempts by OMB to control the use of consultant contracts by requiring periodic reports from the executive agencies has been ineffective. OMB has adopted a very narrow interpretation of the term consulting contract, and as a result, agencies are only reporting a small percentage of the contracts which, in our opinion, should be considered as coming within the definition.

Because of time constraints, our review did not encompass the Department of Defense which is the largest single user of consultant contracts. There have been long-standing allegations of abuses by the Department of Defense, and we intend to perform a similar examination within that Department in the near future.

The subject of consultant contracts has been a matter of concern for some years. While there is often a valid require-

ment to obtain outside expertise to assist government officials in the discharge of their responsibilities, the very nature of these contracts open the way for abuse.

Our review has shown that, despite the often expressed concern of the President, the Office of Management and Budget, and the Congress, the misuse of consultant-type contracts by the executive agencies is still a problem. Many of the situations we found raise serious questions about waste and mismanagement, and even possible conflicts of interest. Specifically, we found examples of:

- products accepted, paid for, and filed away without utilization or evaluation by agency officials;
- contracts awarded to former agency employees without competition, often for studies of doubtful utility;
- questionable contract modifications that significantly increase costs and extend completion dates; and
- late delivery of products.

QUESTIONABLE NEED

Our review disclosed several cases where, in our opinion, the need for the particular service was questionable in terms of the agencies' operations. While this is a subjective judgment, we believe that the following factors reflect upon the need for consulting service contracts: (1) failure to adequately consider in-house capability; (2) unsolicited proposals which

were of little value to the agency; (3) year-end spending where the requirement originated in the last quarter; and (4) questionable use made of the end-product.

In 66 contracts or (59 percent of the 111 contracts reviewed) we found one or more of the foregoing problems. The relatively high percentage of contracts having these problems clearly suggests that informed decisions as to need as well as cost consciousness are not present in the award of consulting service contracts. To illustrate I will provide a few examples:

--A contract was awarded for \$24,500 for evaluation of a major housing program. The procurement request justifies contracting on the basis that " . . . in-house manpower and technical expertise (is) not available."

The work described was subsequently performed by agency employees, while the contractor did other work. According to an agency official, at least three employees were capable of doing such work.

--A \$200,000 contract was awarded to identify improvements in the agency's organizational effectiveness and management controls. The contractor had submitted an unsolicited proposal after a meeting with the agency head to discuss the agency's objectives for strengthening its organizational structure. The contractor's representative was an industry acquaintance of the agency head. The contract justification

cited the contractor's unique ability and time urgency. This contractor, in our opinion, was not the only contractor capable of doing such studies and no consideration was given to in-house capability.

--A contract for \$129,419 was awarded on the last day of the fiscal year to study technology transfer accompanying foreign investment in the U.S. Though the work under this contract was initially designed by agency personnel, the decision was made to contract out. The technical representative said the work could and should have been performed in-house. We were told that one of the reasons why this effort was contracted out was the contractor would have more stature and be able to obtain better information over a long lunch than the civil servant would.

--A contract for \$150,000 was awarded for an analysis of the economic impact of certain proposed regulations. The analysis was intended to be available to the public during the period the proposed regulations were open to public comment. However, the contractor did not start work on the study until after the regulations were published, and the study was not completed until after the close of the public comment period.

SOLE SOURCE CONTRACTING

We found extensive sole source contracting for consulting services. Of the 111 contracts reviewed, 74 or 67 percent were sole source. This practice continues despite past GAO reports highlighting this problem as well as the expressed desire of the President to maximize competition.

In many of the sole source justifications, either the contractor's unique qualifications to perform the task or the contractor's familiarity with the agency was cited. In the case of the unique qualifications, we found several cases where it was obvious that other firms possessed the capability to perform the task. Some examples are:

--A contract was awarded for \$1,480,455 to continue planning and evaluation assistance for environmental studies. The justification for sole source stated that the proposed effort is a consolidation and continuation of an existing effort under two previous contracts. Regarding the contractor's exclusive capability, the justification stated that "no other contractor is familiar with and experienced in the basic planning studies and assessments needed * * *." Also, "* * * no other contractor could reasonably be expected to develop the required level of familiarity necessary to perform the work without expending significant costs and intro-

ducing unacceptable delays." In essence, the contractor has established a long and friendly relationship with the agency.

--A contract for \$49,650 was awarded to analyze the grant and contract operation in the Urban Development Action Grant Office, and make recommendations for improvement. The contract was sole source and justified based on an immediate need and the fact that the consultant services required were highly specialized and require a unique expertise. The contractor's expertise was a combination of general experience in numerous aspects of law and by virtue of the specialized expertise of several of its partners. However, 57 percent of the contract cost was for subcontractor efforts.

With respect to a contractor's familiarity with an agency we believe this is used, in many cases, as a means to make the contract award administratively more convenient. The justifications usually cite savings because other contractors would have to spend time obtaining an understanding of the agency. We found no support, however, for the savings alluded to.

MODIFICATIONS

Modifications to the contracts reviewed were commonplace. These modifications increased the scope, cost, and period of performance in almost all of the contracts. For those

contracts which were modified, modifications amounted to \$4.6 million or 43 percent of the original contract value. As a result, delivery of end products was frequently not accomplished within original contract timeframes. For example, we found delays of up to 40 months as a result of modifications.

CONFUSION OVER DEFINITION OF CONSULTING SERVICES

There is no reliable or complete data on the use of consulting services by Federal agencies. As a result, we could not determine the extent of use of such contracts in the Federal government. We do believe, however, that the reported use of consulting services by Federal agencies is inaccurate and may be significantly understated. We also believe that the current OMB definition of consulting services is ambiguous. OMB officials told us that the definition is restricted to those contracts which assist agencies in making policy, management, and program decisions. For example, we found that agencies (1) had different interpretations of the definition, (2) the responsibility for reviewing and classifying contracts in accordance with the criteria of the definition was at different organizational levels, and (3) the interpretation varied from broad to narrow.

With respect to interpretation of the definition, we believe that Congressional interest, as commonly expressed, extends beyond the confines of the OMB definition in that it centers on the agency's overall use of "study-type"

contracts--not necessarily on whether such contracts will assist agencies in making policy, management, and program decisions. As a result, we believe that the apparent differing viewpoints over what is a consulting service need to be resolved. This is especially important should the Congress desire to place budgetary ceilings and/or restrictions on the use of such services.

RECOMMENDATIONS TO OMB

GAO has recommended that the Director, OMB instruct Federal agencies to more rigorously challenge program office requirements for consulting services. The recommendations include consideration of an independent type board in each agency with sufficient power and authority to challenge requirements. Among the functions such a board would perform are:

- Assuring that in-house capability is adequately considered;
- assuring that the service is needed in terms of agency mission and established priorities;
- assuring that similar efforts have been adequately considered;
- evaluating the necessity of using former agency employees in the performance of contract tasks; and
- determining the reasonableness of using Cost-Plus-Fixed-Fee contracts in view of the nature of the work to be performed.

In addition, we have recommended that the Director, OMB:
--work with the Congress to achieve a better and more
uniform understanding of the current OMB definition
of consulting services; and
--intensify oversight on agencies' use of consulting
service contracts.

In summary, our review has disclosed serious problems
with the use of and control over consulting service contracts.
It is our view that the problems are probably common to most
Federal agencies. Given the long history of these problems
at Federal agencies, we believe it paramount that strong action
be taken to minimize the abuses associated with these type
of contracts.